

TO: Thomas J. Bonfield, City Manager

THROUGH: Wanda Page, Deputy City Manager
Alethea C. Bell, Human Resources Director

FROM: Dee Byers, Interim Human Resources Manager

SUBJECT: Year 2013-14 Benefits Recommendations

DATE: 5/17/2013

I. Executive Summary:

This 2013-14 Benefits Recommendation represents the second year in the three year agreement with the vendors selected in the 2012 Request for Proposal (RFP) for most City benefit programs. The major goal of the City of Durham benefits program is to provide the highest valued benefits plan at the most reasonable cost to employees and the City.

Rising health care costs and increased usage by employees, retirees and their covered dependents continues to challenge our ability to accomplish this goal. These recommendations include plan design enhancements such as the waiver of copays for preventive care and encourage the use of generic medication with \$0 copay. Wellness efforts have increased with employee participation in several events such as the Bull City Challenge, Schewell Challenge, and the Get Fit 60 Day Challenge to increase physical activity. Research has continued to show that these efforts can reduce overall costs and provide a considerable return on investment.

II. Recommendation

The administration recommends the continuation of the administrative agreement with Blue Cross / Blue Shield of North Carolina (BCBSNC) for the 2013-14 plan year. Based on the self-funded projection no increase to the fund is needed for the September 1, 2013 effective date.

The administration recommends an increase in the employee only rate to \$32.50 per month in the Core Plan. This will increase employees awareness of the appropriate amount of coverage for their healthcare needs and will create a difference in cost between the employee only Core rate and employee only Basic rate. Both of these rates are currently the same cost of \$0.00 to the employee.

The administration also recommends continuing the BCBSNC Dental contract with a 2.8% increase to the fund; continuing Unum Life Insurance Company to provide the City's basic term life insurance and Colonial as the provider of employee paid insurance products.

The administration recommends the Laymon Group as the administrator of the Flex Spending Accounts and the Health Reimbursement Arrangement (HRA); Community Eye Care for the Vision plan, Hyatt legal for prepaid legal services, Liberty Mutual for voluntary auto, homeowners and other liability insurance, and Del Mattioli and Associates, LLC. for Long Term Care insurance.

III. Background

In May 2012 Council voted to approve Staff's recommendation that the City continue with BCBSNC for a three year contract as a self-funded group for the medical plan and dental plan with current plan designs and authorized the City Manager to enter into an administrative contract with BCBSNC and renew contracts with all other current vendors.

In the second year, employees have embraced the new wellness initiatives by naming the wellness program "Healthy 4 Life," and participating in wellness activities such as the Health Assessment, walking clubs, and monthly wellness seminars. Employees have also exceeded expectations in challenges like losing an average of 3lbs per person in 45 days.

With no plan design changes, the Human Resources Department involved employees, strategic plan team members, and the insurance broker in the review and development of the wellness plan. Benefits continuation has involved a review with City Management and with the Council Insurance Sub-Committee and will include presentations to employee and retiree groups and the Department Liaison group. The changes included in this recommendation will help the City better control expensive procedures and encourage healthy life choices.

Communication is also maintained with other city and county organizations in order to learn about new ideas and ways to improve the City's plan design and to limit the amount of premium increases.

IV. Issues/Analysis:

Health Care

Several factors continue to influence the increases in health care costs. The cost of health care continues to rise significantly each year because of new, expensive procedures and medications. In addition, on March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (H.R. 3590). This is the most sweeping change in U.S. policy in over half a century. Implementation and compliance with this Act will have a significant impact on health care for years to come.

The City has experienced several very large claims during the 2012-2013 benefit year. However, with the wellness initiatives overall there has been a cost slow down though there still remains an upward trend. The national medical trend is an 8-9% increase, the City of Durham trend was at 4.5-5%. This can be attributed to employees' beginning to take responsibility for their health and lifestyle choices.

Employees have grasped the three level health care plan design and over the last year have gravitated from the Premium and Basic level plans to the Core Level Plan. The recommended change to the employee only rate to \$32.50 on the Core plan could result in an increase in participation in the employee only Basic plan which will remain at no cost. With the inclusion of the Health Reimbursement Arrangement for hospital, surgery and other high copay services, employees notice the actual cost of the procedures and claims they are incurring and better recognize and value the contribution the City is making to their coverage.

The City continues to encourage employees to seek out preventive care to maintain the highest levels of health. Education and preventive care remain two of the most important resources available to employees in diagnosing and treating medical problems early.

The 2013-14 health care recommendation maintains the strengths of the 2012-13 plan design with important but minimal changes and will allow the City to continue to offer competitive rates to plan participants. Staff believes that rates will continue to remain reasonable if the City continues to provide support for those programs that increase employee involvement in the overall development and responsibility for the health care plan. This includes cost sharing and preventive/wellness programs.

Wellness and Disease Management

In the past employees accepted health care plans that provided coverage without much understanding of how overall cost in claims affect the premium costs that are paid by employees and the City. With increasing costs, employers have sought to help employees understand the relationship better and involve them in influencing the programs that will provide them with increased choice and responsibility of the cost of the coverage. To encourage employees to take their medications, the plans will continue the \$0 co-pay for generic medications. The plan will also continue to include 100% coverage for medical supplies (includes diabetic supplies, inhaler spacers and peak flow meters). This is all intended to improve resources for those with higher incidents or risk of medical illnesses to help them to better manage the care and cost. Along with this, many organizations, like the City, have also implemented programs that are focused on resources to help participants best identify future medical risk and provide resources to help them maintain and improve wellness by making healthier choices.

To deal with the root cause of increased claims, the plan maintains a focus on identifying and providing case management to members with chronic illnesses and provides resources to encourage employees to make healthy life style changes. The health care plan recommendation continues and increases the City's focus on wellness and disease management resources.

The BCBS plan continues to have considerable resources available to employees that will encourage and support wellness efforts. The City, with assistance from BCBSNC continues to support a Wellness Committee. Staff will host a Health/Benefits Fair on June 13, 2013 at City Hall in the lobby to provide information on the benefit plans as well as wellness information.

As part of the City's overall Strategic Plan Goal #4 Well Managed City, the Wellness Committee and Human Resources are in the process of reviewing the wellness policy draft for submitting to the City Manager's office for approval. This policy will be available to City employees.

The City will also continue relationships with outside organizations to provide employees with selected wellness initiatives and events. These activities currently include projects with Duke University and Durham County. The wellness program demonstrates the City's commitment to improving employee health and adds value to the benefits package.

Dental Care Plan

Staff also recommends the continuation of BCBSNC as the administrator of the City's self insured dental plan. Employees pay a monthly premium for single, two-party or family dental

coverage. Retiring employees are allowed to elect dental coverage for up to eighteen (18) months at full cost without a City contribution.

With the use of the plan and the cost of services increasing, staff recommends that the dental rates be increased by 2.8%.

Basic Term Life Insurance

Under this recommendation the City paid, Basic and Supplemental Term Life Insurance will continue to be provided by Unum. All eligible employees receive City-paid, term life insurance in the amount equal to their annual salary. The rates will remain the same. Employees may select additional, employee-paid, supplemental coverage for themselves and/or dependents. Through UNUM, the City will continue to offer three options for additional term life insurance.

The current City paid and voluntary employee paid supplemental rates will remain the same for 2013-14. Retirees and employees leaving employment with the City may elect to convert the group term life insurance to individual private plans paid for by the retiree or former employee. Disability retirees are granted one year of term life insurance paid for by the City.

Flex Spending and Other Employee Paid Benefits

a. Flexible Spending Accounts (FSAs)

The Laymon Group will continue to provide the administration of the Section 125 Flexible Spending Account Plan. Flexible Spending benefits allow employees to fund pre-tax the cost of health, dental and vision insurance premiums, and to set up special spending reimbursement accounts to pay for specified uncovered medical expenses, dependent care expenses and eligible parking expenses. The plan offers participating employees the option of using a debit card to pay for eligible medical and dependent care expenses.

Effective September 1, 2013 at the City of Durham's renewal and as part of the Patient Protection and Affordable Care Act (H.R. 3590) employee contribution limits will be limited to \$2,500 versus the \$3,000 for the 2012-2013 benefit year.

b. Healthcare Reimbursement Arrangement (HRA)

The Laymon Group will continue to administer the City's Health Reimbursement Arrangement (HRA) for the health care plan deductibles related to hospital visits, out-patient surgery, medical testing and durable medical equipment expenses. Employees and retirees will be reimbursed \$250 when they submit the evidence of benefits for the deductibles.

Based on the plan level employees and retirees will be reimbursed as follows:

\$250 of the \$500 for the Premium Level Plan,
\$250 of the \$750 for the Core Level Plan, and
\$250 of the \$1,500 for the Basic Level Plan

Employees and retirees will be asked to voluntarily complete the BCBSNC Health Assessment to receive the reimbursement benefit. Employees and retirees will receive notice that voluntary completion of the BCBSNC health assessment must be done between 09/01/13 and 12/31/13 in order to qualify for the health reimbursement arrangement. New Employees will be given 45 days from the date of hire to complete the health assessment. This will also be one of the requirements for employees to receive the \$30.00 wellness premium credit for the 2014-2015 benefit year. The completion of the health assessment will continue to be an annual requirement.

c. Vision

Community Eye Care (CEC) will continue to offer single, two-party or family vision coverage with no increase in rates for the 2013-14 benefit period.

d. Colonial Voluntary Benefits

Colonial will continue to offer voluntary, employee-paid insurance products, including cancer, intensive care, long and short-term disability, group universal life, and a prepaid legal plan.

e. Auto and Home Owners Insurance

Liberty Mutual Insurance Company will continue to provide employees with auto, homeowners, renters and umbrella insurance. This benefit is voluntary and employee paid.

f. Hyatt PrePaid Legal

Hyatt PrePaid Legal will continue to provide employees with PrePaid Legal services. This benefit is voluntary and employee paid.

Communication

Throughout the year, the HR Department has communicated with employees on the comprehensive benefit plans offered by the City. This communication has taken the form of all-user e-mails to employees on how to get the most out of City benefits. The HR Department and the Technology Solutions ERP staff have also improved the information available to employees by way of Munis Employee Self Service.

The Departmental Liaison Group continues to meet regularly to discuss, among other things, benefit plan concerns and initiatives. The Liaisons are then asked to take information back to their respective departments to provide information to the employees. The benefits information provided to employees throughout the year by the Departmental Liaison Representatives is intensified during the City's Open Enrollment (OE) period to ensure employees are completely informed about the benefits and choices available during OE.

An Employee Benefits Summary Guide that will contain information about benefits, HR contacts, frequently asked questions and discounts will again be offered to employees and their families. Additionally, HR will make benefit presentations to increase understanding of the future benefit offerings and open enrollment process.

To heighten the awareness and appreciation of the benefit plans, the HR Department provides a 3-hour presentation during the two day New Employee Orientation (NEO) process. This once-a-month training session for new employees allows HR staff and vendors the requisite time to give thorough explanations of the City's core benefits and voluntary benefits. Further it allows time to assist new employees in selecting the most appropriate benefits. These extended training opportunities are designed to give new employees an appreciation for the tremendous investment that the City has made to provide excellent benefits for its employees.

Continued Improvements to the Open Enrollment Process Consistent with last year, the 2013-14 open enrollment process will be a dual process.

a. Web-based on line open enrollment

The City's insurance broker, IBA, will continue to fund the cost of the web-based on-line open enrollment process that will be utilized for enrollment in health, dental, life, long term disability, vision and flexible spending accounts. Employees with access to computers

whether at work or at home will be able to enroll in the above-mentioned benefits on their own during the open enrollment period.

Staff will also be available to assist with web-based open enrollment within departments throughout the open enrollment period. In addition, employees without assigned computers will be able to use computer kiosks at some sites and use the computer lab during open enrollment at the Employee Training Center located at 400 Cleveland Street. All employees and retirees will again be notified and provided with directions on how to use the web-based open enrollment system. Training will also be made available. For those employees who do not want to make benefit changes, no use of the web based system will be needed unless flexible spending account initiation or continuation is desired. Staff will also strongly encourage employees and retirees to attend Employee Benefit Presentations to familiarize themselves with the changes in the plans to prepare for the Open Enrollment process. This process ensures minimal inconvenience to employees and reduces the disruption of work within the departments.

b. Colonial Enrollment

Employees who want to purchase Colonial products will still have opportunities to meet with Colonial enrollers should they chose to do so. For those employees with current Colonial coverage who do not want to make a change, no meeting with a Colonial representative will be needed. This process further ensures minimal inconvenience to employees and reduces the disruption of work within the departments.

V. Alternative

An alternative to Staff's health care recommendation is to adjust the City/Employee contribution levels to further provide financial incentives for employees to select the less expensive Core level plan. Another alternative to the health care recommendation would be to offer the Core Level plan at no increase in premiums over the 2013-14 plan. While this option would further encourage employees to select the Core Level Plan option, it would also increase the City contribution over the recommended option. Staff does not recommend these options.

VI. Financial Impacts

Health Care

The financial impact of this recommendation is related to the monthly premium that employees and retirees will be required to pay due in part to the City's self-funding strategy. This will be the first change in employee contribution in 3 years. The monthly premiums will not change for the vast majority of plan participants. **(See Attachment #1 2013-2014 Benefit Rate)**

The health care insurance premium rate charged to employees includes the coverage for BCBSNC and the administrative fee for ComPsych.

The City of Durham health care premiums are "experience based" and driven by the actual claims that are paid by the vendor for City employees, retirees and their dependents. The premium rates charged by other city and county organizations do not affect the rate the City is charged by vendors.

Dental Care Plan

The administrative fee paid to BCBSNC for the self-funded plan will be \$3.02 per employee each month for 2013-14. Staff has recommended a 2.8% increase to the dental rate premiums paid by employees for dependent care. **(See Attachment 1 – 2013-2014 Benefit Rate)**

VII. Equal Opportunity/Equity Assurance (EO/EA) Summary

It is a mission of the City to increase minority participation in the vendorship of the City's benefits programs. Human Resources and EO/EA Department staff work closely with current vendors to help increase minority participation and the appreciation of diversity.

2013-2014 Benefit Rates

Health 2013-2014

<u>BCBS Health Care Plan</u>	<u>Total Prem</u>	<u>City Cost</u>	<u>City %</u>	<u>Employee Cost</u>
<u>Premium Plan</u>				
Single	\$640.50	\$572.25	89%	\$68.25
Two Party	\$1,140.30	\$772.64	68%	\$367.66
Family	\$1,701.00	\$1,079.87	63%	\$621.13
<u>Core Plan</u>				
Single	\$572.25	\$539.75	96%	\$32.50
Two Party	\$936.60	\$772.64	82%	\$163.96
Family	\$1,495.20	\$1,079.87	72%	\$415.33
<u>Basic Plan</u>				
Single	\$522.90	\$522.90	100%	\$00.00
Two Party	\$898.80	\$772.64	86%	\$126.16
Family	\$1,368.15	\$1,079.87	79%	\$288.28

2013-2014

<u>Dental Care Plan</u>	<u>Total Prem</u>	<u>City Cost</u>	<u>City %</u>	<u>Employee Cost</u>
Single	\$40.00	\$27.00	67%	\$13.56
Two Party	\$69.00	\$40.00	58%	\$29.78
Family	\$117.00	\$40.00	34%	\$79.40

Unum**Life Rates*** per \$1,000 of Coverage**Age Rate Age Rate**

< 25	\$0.06	45 - 49	\$0.29
25 - 29	\$0.06	50 - 54	\$0.47
30 - 34	\$0.08	55 - 59	\$0.74
35 - 39	\$0.11	60 - 64	\$1.15
40 - 44	\$0.18	65 - 69	\$1.64

*Life rates are based on five-year increments. Rates increase as you age.

Employee Voluntary AD&D Rate: \$0.035 per \$1,000 of Coverage**Dependent Life Rate:** \$1.98 per Family Unit